LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7318
BILL NUMBER: HB 1359

DATE PREPARED: Jan 9, 2002
BILL AMENDED:

SUBJECT: Health Insurance for Retired State Employees.

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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides that a state employee who retires after June 30, 2002: (1) may obtain state employee health insurance coverage equal to the coverage offered to active state employees if the retired state employee pays the employee's share of the premium; and (2) remains eligible for coverage when the employee is eligible for Medicare.

Effective Date: July 1, 2002.

Explanation of State Expenditures: The fiscal impact of this bill addresses two main issues: **(1)** costs associated with offering health insurance to retirees at a reduced cost; and **(2)** savings associated with hiring replacements for the vacated positions at reduced salaries.

The costs and savings are presented in two scenarios:
Current scenario - no additional benefits and 100% rehire of vacated positions;
Proposed scenario - health benefits for retirees at 93.9/6.1 state/employee cost split and 100% rehire of vacated positions.

The net fiscal impact of this proposal is based on the difference between the increase in health care costs to the state due to the additional retirees' health benefits and the reduction in compensation costs to the state for those individuals hired to replace the retirees. The cost of providing health care benefits to retirees is $19 M for the first year. The reduction in salary and associated benefits for these employees totals $37.9 M for a savings of $18.8 M. However, under the current scenario, without a health care provision, the state will save $25.5 M in reduced salaries and benefits from retirees. Thus, the net cost of this bill is **$6.6 M** annually.

Current Scenario: No additional benefits and 100% rehire of vacated positions
Under the current scenario the state does not pay any amount toward health insurance for state retirees. A state retiree may continue under the state health insurance program by paying 100% of the premium. The

current scenario assumes that 10% of early retirement-eligible and 40% of regular retirement-eligible employees actually will retire. These numbers are based upon actuarial experience studies.

(1) Health Insurance Cost: The net gain in health benefits is assumed to be **$0**.

(2) Salary Savings: An estimated 1,825 people will retire this year (early and regular combined). The state will save an estimated **$25.5 M** in salary from these retirees (assuming that 100% of the vacated positions are filled with new hires). As new employees receive in-grade promotions and raises, this savings will decrease proportionally over time.

Proposed Scenario **-** Health benefits for retirees at 93.5%/6.5% state/employee cost split and 100% rehire of vacated positions.

(1) Health Insurance Costs: **$19 M** for first year**:** (total may not add due to rounding)

This cost is distributed among the following groups:

- Early Retiree Eligibles that would have retired anyway and purchased state insurance: **$0.8 M**,
- Early Retiree Eligibles that will retire due to insurance incentive and purchase state insurance: **$6.5M**,
- Early Retiree Eligibles that would have retired anyway, do not currently have state insurance, but will purchase because of lower cost: **$0.8 M**,
- Regular Retiree Eligibles that would have retired anyway and purchased state insurance: **$2.2 M**,
- Regular Retiree Eligibles that will retire due to state insurance incentive and purchase state insurance: **$8.2 M**,
- Regular Retiree Eligibles that would have retired anyway, do not currently have state insurance, but will purchase because of lower cost: **$0.5 M.**

These costs reflect an adverse experience factor due to providing benefits to older employees. Experience data from Anthem in 2000 indicated that retirees utilize $2.37 of benefits for every $1.00 of premium. This adverse experience factor would increase the premium of all state employees. The $19 M cost would be dispersed among the entire state employee pool in the form of higher premiums. The cost due to adverse experience may be lower than expected depending upon the status of individuals hired as replacements for retirees.

It is important to note that these savings are for the first year of the additional health care benefit package. Consequently, some portion of this cost could potentially double in the second year and so on until a maximum level of retirees obtaining the increased benefits is reached. This maximum level would depend on the number of retirements of employees in this group, and the number of deaths of retirees in this group obtaining the increased benefits. Over time this package may cost the state a substantial amount of money.

(2) Salary Savings: **$37.9 M:** Of this amount early retirees account for **$12 M** and regular retirees account for **$25.8 M** in savings. These savings are due to reduced salary and fringe benefit expenditures associated with filling vacated positions with lower paid employees. As new employees receive in-grade promotions and raises, this savings will decrease proportionally over time.
The base number for the current scenario includes 882.5 FTEs fewer than the proposed scenario. This

difference is due to additional employees in the proposed scenario that are incentivized to retire with the new health insurance plan. These employees traditionally do not retire due to a desire to maintain health insurance at a low cost.

Background Information:
Under the current retirement plan the state does not pay any portion of health insurance for retirees. Retirees may continue their coverage by paying the full premium on their own. HEA 1667-2001 mandates that the state offer, for a fee, health insurance to retirees 65 and older that is comparable to a Medicare Supplementary package with and without a prescription option.

There are currently 8,100 state employees eligible for retirement - early and regular - in 2002. On average 10% of employees eligible for early retirement, retire each year and between 35% and 40% of people eligible for regular retirement, do so each year (40% used for calculation purposes). Based upon these numbers an estimated 475 people will retire early and 1,340 will take regular retirement this year. Actuarial studies indicate that an additional 8% of single and 15% of employees with family coverage will be incentivized to retire under this provision.

The state currently offers six regular health insurance plans. One plan is the traditional self-insured indemnity plan in which the state pays all the claims. The 2002 average state share of premiums for these plans are: $329.83 per month ($3,957.96 annually) for single coverage and $870.80 per month ($10,449.60 annually) for family coverage - [Note: this represents a 93.9%/6.1% state/employee cost share.]

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: All state agencies.

Local Agencies Affected:

Information Sources: Keith Beesley, Attorney, State Personnel Department, (317) 232-3062; Doug Todd, Actuary, McCready & Keene Inc., (317) 576-1508.